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## China, Peoples Republic of

### Oilseeds and Products

### Oilseed Update

### 2008

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**Report Highlights:**

FAS Beijing increased its forecast for MY08/09 Chinese soybean production to 16.8 MMT, up 0.8 MMT from the previous forecast. This production level is 20 percent higher than the estimated 14 MMT for MY07/08. Soybean ending stocks were also revised up to 4.0 MMT and 4.6 in MY07/08 and MY08/09, respectively. This significant ending stock increase is due to large MY07/08 imports, reported expansion of state reserves, and general growth of stocks in relation to larger supply volumes.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Beijing [CH1]  
[CH]

**MY08/09 domestic soybean production expected to increase by 2.8 MMT**

Post's revised forecast for MY08/09 Chinese soybean production is 16.8 MMT, an increase from the previous forecast of 16 MMT (GAIN8062). This is 20 percent higher than the estimated 14 MMT for MY07/08. The forecast production growth is mainly attributable to an expansion in the planted area and yield recovery in the key production province of Heilongjiang in response to increased returns from soybeans following the price surge for oilseed products in mid-2007. Using various Heilongjiang industry and government sources, soybean production in MY08/09 is estimated at 8.9 MMT from the 6.5 MMT in the previous year. This is based on an estimated planted area at 4.8 MHa (up 15 percent over MY07/08) and averaged yield at 1,867 KG per hectare (up 19 percent over MY07/08). There are many different views of provincial production, including provincial officials that estimate a 3.0 MMT increase over the previous year.

Post's field study in Heilongjiang Province conducted the week of October 9 showed that MY08/09 soybean yield is higher than the previous year though the growth rate varies by region. Farmers interviewed also confirmed reports of increased planted area. While yield was extremely low in MY07/08 due to serious drought in most parts of Heilongjiang Province, weather conditions in 2008 remained favorable for soybean growth. The northwest and northeast parts of Heilongjiang Province experienced very good weather conditions throughout the growing season. North-central Heilongjiang experienced good early growing conditions, but experienced very little precipitation for about four weeks during much of August and saw yields drop as a result.

**MY07/08 soybean ending stocks estimated to exceed 4.0 MMT**

MY07/08 soybean ending stocks were revised up to 4.0 MMT from 2.8 MMT. MY08/09 ending stocks were also revised upward, to 4.6 MMT. These increases are due to the large increase in imports in MY07/08, reported expansion of state reserves, and general growth of stocks in relation to larger supply volumes. According to certain industry sources, China's current state soybean reserve was increased in 2007 and 2008 to approximately 1.8 MMT. Many market analysts suggest that privately held stocks have increased in recent years and may reach 3.0 MMT. As a result of higher stocks and increased domestic production, prices for the MY08/09 crop will likely be less than last year and a major disappointment after recent high prices.

Post's field trip in Heilongjiang showed that the MY08/09 crop has largely been harvested but very little marketed because both farmers and traders/crushers were concerned about the price trends. At the current time, producers know that production is large but still seem to hope that prices will increase. Alternatively, crushers seem willing to wait as they expect prices to fall.

Many Chinese companies are prompting the government to increase stockholding of domestically-produced soybeans. They feel that this is the only way the government would realistically and effectively intervene in the market to meet its stated aims of protecting farmers' interests by providing some level of income support. Chinese industry worries that farmers may switch out of soybeans in some areas because of the rollercoaster ride in prices in the past several years. State purchasing of domestic MY08/09 soybeans is quite likely, though it is too early to speculate if it will be only for state reserves of Chinese beans or will be a market intervention designed to maintain "acceptable" prices.

**PSD Table**

Country	China, Peoples Republic of						UOM
	Oilseed, Soybean						
Commodity	2006		2007		2008		
	USDA Official	Post Estimate New 10/2006	USDA Official	Post Estimate New 10/2007	USDA Official	Post Estimate New 10/2008	
Market Year Begin							MM/YYYY
Area Planted	9300	9300	9200	8700	0	9300	(1000 HA)
Area Harvested	9280	9280	8700	8700	0	9300	(1000 HA)
Beginning Stocks	4473	4473	3123	3123	2773	4023	(1000 MT)
Production	15967	15967	14300	14000	0	16800	(1000 MT)
MY Imports	28726	28726	34000	35500	0	36000	(1000 MT)
MY Imp. from U.S.	11505	11505	11500	11500	0	12000	(1000 MT)
MY Imp. from EU	0	0	0	0	0	0	(1000 MT)
Total Supply	49166	49166	51423	52623	2773	56823	(1000 MT)
MY Exports	446	446	300	400	0	400	(1000 MT)
MY Exp. to EU	0	0	0	0	0	0	(1000 MT)
Crush	35477	35477	38100	38000	0	41500	(1000 MT)
Food Use Dom. Cons.	8420	8420	8550	8500	0	8500	(1000 MT)
Feed Waste Dom. Cons.	1700	1700	1700	1700	0	1800	(1000 MT)
Total Dom. Cons.	45597	45597	48350	48200	0	51800	(1000 MT)
Ending Stocks	3123	3123	2773	4023	0	4623	(1000 MT)
Total Distribution	49166	49166	51423	52623	0	56823	(1000 MT)
CY Imports	30000	30000	34500	34500	0	37000	(1000 MT)
CY Imp. from U.S.	11500	11500	12500	12500	0	12000	(1000 MT)
CY Exports	400	400	390	390	0	400	(1000 MT)
CY Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

**More Black Land?**

The question of unaccounted production area (so-called “black land”) is still a topic of debate among Heilongjiang industry watchers and one that also troubles cotton production analysis in other parts of China. Industry suggested that China’s agriculture tax (area based) caused a significant underreporting of planted area and that, once the tax was eliminated and certain subsidies became available, rural residents and villages had reason to “uncover” this land for official reporting purposes beginning in 2006. Certain sources also think that it may now cause the opposite effect in limited terms, over-reporting of planted area or double counting in order to qualify for more subsidies.

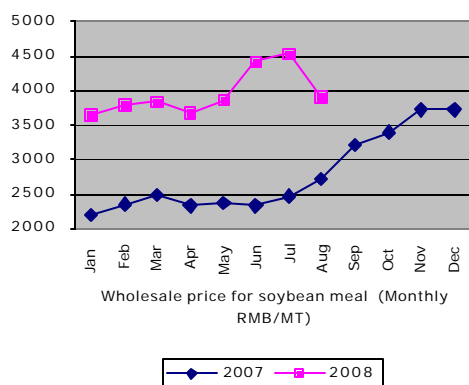
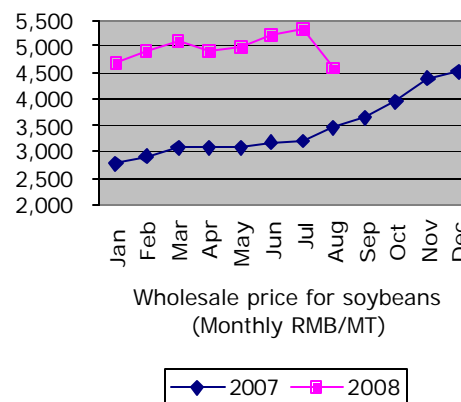
Though there has been some correction to official statistics in the past several years, several analysts present credible information that suggests that official statistics still do not correctly identify soybean planted area in Heilongjiang Province. Some analysts have presented data that estimates as much as 2.7 MHa of unreported land used for grain and soybean planting.

The provincial government has apparently noticed some discrepancy but has hesitated in adjusting the area because of concerns of inflated area by county governments for more area-based agriculture subsidies.

### Demand for oilseed products continues to grow as prices decline

MY08/09 soybean imports are forecast at 36.0 MMT, up slightly from the estimated 35.5 MMT for MY07/08. As of the end of August 2008, MY07/08 soybean imports were 33.7 MMT, up 25 percent over the previous year, while in September are estimated at over 2.0 MMT. Additionally, MY07/08 soybean oil and palm oil imports are also expected to increase by 500,000 MT and 400,000 MT, respectively, from 2.4 MMT and 5.1 MMT in the previous year.

Prices for oilseed products began declining in August from the record highs the previous month. According to CNGOIC, the average wholesale price for soybeans in the first twenty days of August declined to \$664 from the record-high of \$770 per metric ton in July. The average wholesale price for soybean meal and soybean oil in the first twenty days of August fell to \$565 and \$1,261 per metric ton, down 14 and 21 percent, respectively, over the previous month. The wholesale price for palm oil decreased to \$1,120 per metric ton, down 23 percent from the \$1,449 per metric ton high in July.

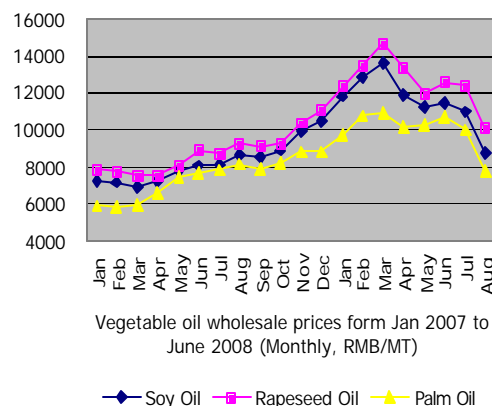


The general trend of China's demand for oilseed products remains unchanged. However, high soybean, soybean oil and palm oil imports before the harvest of domestic new crop have put significant pressure on traders of domestic oilseed products. On August 15, one of the largest multi-national vegetable oil brands announced a ten percent price decrease for its bottled oil in the retail market. Another large domestic brand followed suit reducing prices for its vegetable oil by 10 percent on August 18.

The price

reduction indicated an excessive supply due to a combination of factors including large imports (soy oil, palm oil and soybeans), elimination of VAT rebate for vegetable oil exports effective June and anticipated increased domestic production.

The relatively high soybean meal supply drove prices down beginning late July, while most feed mills maintained low stocks in response to an unstable livestock production market. However, most industry experts believe the recent price fluctuation for soybean meal is unlikely to change the fundamental demand trend.



Demands for vegetable oils and animal products were expected to recover over National Day Holiday in early October. According to National Statistics Bureau, the CPI in August declined to 4.9 from 7.1 in the previous month. Many experts believe the CPI will remain at a relatively low level in September and October.

Note: All wholesale prices are based on CNGOIC; August prices are average wholesale prices in the first 20 days in the month.

### **Three percent soybean import duty resumes**

In an effort to maintain a stable supply of oilseed products in the domestic market and curb the continuous high CPI, some preferential tax/duty policies have been in place since the end of 2007 (GAIN8062). However, the one percent import duty for soybeans effective from January 1 to September 30, 2008 will be eliminated. According to China Customs "Questions and Answers" to industry, the soybean import duty returned to three percent as of October 1, 2008.

<http://www.customs.gov.cn/Default.aspx?tabid=523&mid=1469&ctl=YwzxInfoListView&classID=2162f136-1bee-40a5-b508-a3523c6f2118&className=%25u51CF%25u514D%25u7A0E>

### **MOA published national advantageous distribution plan for production of major agricultural commodities**

On September 12, 2008, MOA published a "national advantageous distribution plan" for major agricultural commodities (2008-1015). The plan covered eleven major agricultural commodities, including soybeans and rapeseed. According to the plan, three soybean producing "bases" will be established: 1) the northeast high oil-content soybean region; 2) the central and south part of the northeast dual-use (crushing and food) soybean region; and 3) and high protein soybean region in the Yellow River, Huai River and Hai River regions. The plan set targets as follows: by the year 2015, soybean planted area in these advantageous regions will reach 6.52 MHa, accounting for 67 percent of the national total, and total production will be 15.8 MMT based on yield at 2,415Kg per hectare (up by 960Kg per hectare as compared to the averaged yield in 2007). Four rapeseed advantageous regions will be built in the upper, middle and low Yangtze River regions and in northern China. By the year 2015, rapeseed production in these regions is forecast to exceed 19 MMT based on an estimated planted area at 9.3 MHa (accounting for 95 percent of national total). Other oilseeds such as peanut, sunflower seed are not mentioned in this plan. It is unclear what the GOC will do to help these areas maintain oilseed production and increase productivity.